

insight

A RATNERPRESTIA PUBLICATION

IN THIS ISSUE

FOLLOWING RULE 11 MAKES GOOD BUSINESS SENSE (AND IT'S THE LAW)	1-3
RATNERPRESTIA ANNOUNCES COMPLETION OF OFFICE EXPANSION	1,6
ANNOUNCING	4
RP ON THE MOVE	5
SPEAKER'S FORUM	7
INSIGHT... INTO BUSINESS APPROACHES TO DISPUTE RESOLUTION	8-9

FOLLOWING RULE 11 MAKES GOOD BUSINESS SENSE (AND IT'S THE LAW)

BY: STANLEY WEINBERG

THE PROBLEMS THE BUSINESS PROBLEM

Your company has a thriving business in a commercially important and profitable product line. This particular product line is centered around a key product. For years, ever since your company introduced this product line, there has not been any significant competition. Now, your sales reps are beginning to tell you there is competition. In fact, your customers are telling your sales reps that the competing product is almost as good as your product, it works just about the same as your product, it provides substantially the same result as your product - and, it is 30% cheaper than your product. Indeed, your sales are dropping off. Even though the competing product is not as good as your product, it performs well enough to justify buying at the substantial savings. At first, none of your customers will show the competing product to your sales reps. Then, thankfully, a couple of your long-time customers do display it to your sales reps. None of your customers will give you or even sell you a sample of the competition's product.

CONTINUED ON PAGE 2



RATNERPRESTIA ANNOUNCES COMPLETION OF OFFICE EXPANSION

The continuing growth of RatnerPrestia was celebrated recently with an open house, marking the end of a nine month expansion of its Berwyn, PA office in the Westlakes Office Park Complex.

CONTINUED ON PAGE 6

Because your company has been IP savvy for quite some time, you obtained 5 U.S. patents: 1 patent on the key product and 4 patents on each of the peripheral products. None of the patents will expire for at least 10 more years. The patent on the key product will be the first to expire - in 10 years. There is no doubt that the product line, with the key patented product, will remain a top selling item for at least 5 more years.

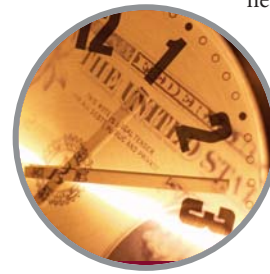
You hastily call a meeting of the sales reps responsible for selling this product line. Attending the meeting are the engineers who designed the product line, including the key product. Also attending the meeting are the managers of the assembly lines that manufacture the various products in the product line, including the key product. At the meeting, you provide to everyone a copy of the patent covering your key product. Your sales reps describe the competing product that your cooperating customers showed them. The sales reps relate:

- they did not see the inside of the competing product;
- they saw and inspected the outside of the competing product;
- the outside of the competing product looked and felt as if it is almost the same size, configuration, and weight as your key product;
- the only difference that all of the sales reps identified during the 5 minutes or so that they were able to inspect the competing product is that there is an important flange on the front of the competing product. Your key product is so good, it does not need such a flange;
- the cooperating customers all say that the flange slows down performance of the competing product; but they can live with the slower unit because of the 30% cost savings; and
- otherwise, the cooperating customers said, the competing product works just about the same as your key product and provides substantially the same result as your key product.

You leave the meeting with a strong belief that one or more of your patents are being infringed by your competitor. Soon, you see visions of a courtroom, and a large jury award. Although you are determined to enforce your patents, there are a few issues you need to consider before filing a lawsuit.

THE COST OF ENFORCEMENT PROBLEM

It has often been said that one of the things a contract provides is an opportunity to spend a lot of money trying to enforce it in court. The same adage applies to patents and patent infringement litigation - except in spades. Patent litigation is not for the faint-



hearted. The fees for a team of lawyers, consultants and expert witnesses, including their travel times to distant locations for depositions, regularly top \$1 million. And that’s only part of it. Your key people will spend countless hours gathering and sifting through documents,

answering interrogatories, preparing for and attending depositions, reviewing deposition transcripts, preparing for trial, and attending trial. In short, patent infringement requires a major time and cost commitment.

A hidden cost may be the reputation of your company if you are found to have filed an unfounded patent infringement lawsuit. Even if you are willing to incur the substantial costs of enforcing your patent, how can you be reasonably confident that the costs will be justified?

THE WAY TO DETERMINE IF THE EXPENSES WILL BE JUSTIFIED RULE 11

It often seems that lawyers, judges and Congress create rules that not only make things more complicated, but also drive up the cost of litigation. Rule 11 of the Federal Rules of Civil Procedure is an exception, as it applies to all litigation - not just to patent litigation. Its goal is to prevent baseless lawsuits and frivolous filings with the court. It requires the plaintiff’s attorney (or the plaintiff, if the plaintiff is not represented) to investigate the validity of the claim before filing a lawsuit. Failure to comply with Rule 11 before initiating litigation can result in the imposition of financial and/or non-financial penalties on the attorney and possibly the patent owner.

From a business perspective, complying with the Rule's requirements makes good business sense because the Rule provides an excellent guideline which will point a patent owner in the right direction: to sue or not to sue for infringement.

The pertinent part of the Rule is simply stated: When an attorney files suit for patent infringement on behalf of a patent owner, the attorney is certifying to the court that he/she has "knowledge, information, and belief formed after an inquiry reasonable under the circumstances" that the allegations of infringement and the "factual contentions" in support of infringement "have evidentiary support." In other words, before filing a lawsuit, patent counsel must have conducted a reasonable investigation to determine if there is a reasonable basis to believe there is patent infringement. Although the Rule is easily stated, the devil is in the details, as always.

THE APPLICATION OF RULE 11 TO THE PROBLEM

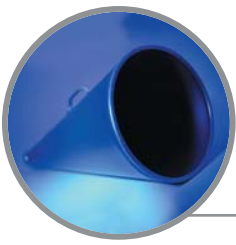
The single most important point in patent infringement litigation is whether the accused product infringes one or more of the claims of the patent. There is no patent infringement if the accused product is only disclosed, but not claimed, in the patent. Therefore, before filing suit, the business investigation (and the Rule 11 inquiry) is whether the patent claims cover the accused product. Stated differently, before filing suit, the pre-filing investigation should determine whether the patent claims "read on" the accused product. In order to carry out the business investigation, the patent owner should:



- Get a sample of the accused product, or get substantial access to the accused product. Basing a patent infringement lawsuit on a cursory examination of the accused product does not make good business sense - and generally does not comply with Rule 11.
- Analyze the accused product. Fully understand its structure and its operation.

- Analyze the patent claims. Fully understand what the claims cover and what they do not cover. Generally, this will require experienced intellectual property counsel.
- Compare the accused product with the patent claims. Can the patent owner and its counsel reach a reasonable conclusion that the patent claims "read on" the accused product? If there are doubts, how significant are the doubts? Are the doubts so significant that a lawsuit is not financially justified...and, equally significant, not in compliance with Rule 11?
- Engage IP counsel early in the investigation to actively participate in the interpretation of the claims and an analysis of whether the patent claims read on the accused product. In fact, in order for your litigating IP counsel to also comply with Rule 11 before filing suit, they will insist on conducting their own analysis before filing suit. Therefore, the patent owner will avoid duplication of effort and costs by involving the litigating IP counsel early.
- If there is a reasonable basis to conclude that the patent claims read on the accused product (and if litigating IP counsel agrees), you have a good starting foundation upon which to add other business factors in the course of deciding whether or not to sue.
- What a patent owner and their patent counsel should do if it is unable to obtain a sample of the product, is a topic for another day, as is the problem that is presented when the nature of the product precludes a complete analysis without confidential information from the manufacturer of the accused product.





ANNOUNCING

RatnerPrestia is very proud to announce that they have been selected to serve as primary intellectual property counsel for University of Delaware. According to the announcement made by the University's Office of the Vice Provost for Research (OVPR), RatnerPrestia will be responsible for preparation and prosecution of patent applications resulting from research at the University and will partner with OVPR to develop a more timely, cost-efficient and proactive program for protecting and capitalizing on all of the University's intellectual property. The University selected RatnerPrestia for this role after an extensive proposal review and interview process involving a number of law firms.



RatnerPrestia is pleased to announce that its co-founding partner, **Paul Prestia**, has been named in the 2006 edition of "The Best Lawyers in America" for the practice area of Intellectual Property. "The Best Lawyers in America," an annual publication of Woodward/White Inc., lists the top attorneys in their field, selected through a peer-review survey.

The Product Development Management Association's Visions Magazine recently published an article by RatnerPrestia Shareholder **Joshua Cohen**, entitled, "Intellectual Property Part II: Strategies for integrating a strong Intellectual Property review into New Product Development (NDP) processes." In the article, Josh presented strategies for integrating IP review into NPD processes so that innovative companies can seize IP opportunities and manage IP risks.



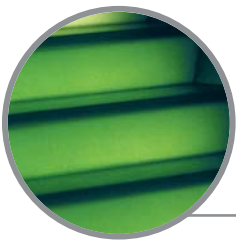
Jonathan Spadt, a Shareholder and member of the Management Committee with RatnerPrestia, has been honored as one of The Legal Intelligencer's "Lawyers on the Fast Track." According to American Lawyer Media (ALM), the publishers of The Legal Intelligencer and Pennsylvania Law Weekly, "Mr. Spadt was chosen to receive this coveted award because he has shown outstanding promise in the legal profession and has made a significant commitment to the community-at-large."



That commitment is demonstrated in **Jonathan's** recent acceptance of an appointment as the Executive Director of the Montgomery County Chapter of the Pennsylvania State Association of First Class Township Commissioners (PSATC). This organization has the primary objective of fostering improved municipal government in Pennsylvania by providing appropriate technical assistance and research services and serving local governments by providing programs, cost-effective services, and legislation which strengthen the autonomy of Pennsylvania municipalities. Jonathan currently serves as a Commissioner of Lower Pottsgrove Township in Montgomery County.

Jonathan has also been named to Montgomery County Lands Trust's "Green Futures" Initiative Advocacy Committee, which advocates and recognizes those exemplifying good land protection, stewardship, and smart growth. The Committee will award communities and individuals who contribute successfully to the Trust's Green Fields/Green Towns programs.

RatnerPrestia is pleased to announce that attorneys, **Benjamin Leace, Christopher Lewis, Kenneth Nigon, Paul Prestia,** and **Allan Ratner** have been honored as 2006 Pennsylvania Super Lawyers by Law & Politics magazine. Christopher, Kenneth, Paul and Allan were honored for Intellectual Property, while Benjamin was named for Intellectual Property Litigation. Pennsylvania Super Lawyers are published in Super Lawyers magazine and Philadelphia Magazine.



RP ON THE MOVE



RatnerPrestia has recently established two new positions within the firm to handle conflicts and ethics issues. **Bruce Monroe**, Of Counsel with the firm, will be primarily responsible for advising the firm on conflicts of interest and ethics matters. Shareholder **Robert**

Seitter will serve as a secondary consultant under Bruce.

Together, Bruce and Robert will provide critical assistance to the firm by reviewing conflict and ethics questions pertaining to client representation, and other matters, and by advising the firm with respect to issues which arise in the course of on-going representations and when new engagements are being considered.



As a result of steady growth in RatnerPrestia's Trademark practice area over the last several years, the firm has consolidated its trademark procurement and renewal practice into a new Trademark Center in the firm's Wilmington, DE office. "This move

allows RatnerPrestia to focus our trademark expertise in a single location to provide the highest level of service to all of our clients. The Wilmington office is ideally suited to meet our clients' needs, particularly those of Delaware Intellectual Property Holding Companies," notes **Rex Donnelly**, a Shareholder with RatnerPrestia and Chair of the Trademark Department. Rex will be the Trademark Center's Managing Attorney and will be responsible for all of the Center's operations.

As one of its first functions, the Trademark Center hosted a luncheon for 17 staff members of various Delaware investment holding companies. The meeting provided an open forum focusing on a wide range of issues faced by holding companies. RatnerPrestia's **Daniel Calder**, **Rex Donnelly**, **John McGlynn** and **Robert Seitter** participated in a discussion about the broad range of challenges holding companies face and contributed insights into trademark strategies.

Daniel, Rex and Robert are all Shareholders of RatnerPrestia. **John McGlynn** is a new Associate who is expected to play a key role in the Trademark Center. Prior to joining RatnerPrestia, John was an associate in the New York office of an international intellectual property law firm with a strong presence in the Trademark legal community. In that firm, he counseled and assisted clients in connection with all aspects of domestic and international trademark prosecution and use including clearance, registration, enforcement, transfer and licensing of trademarks.



Dawn Kerner joins RatnerPrestia as an Associate in the Valley Forge office. Dawn graduated cum laude with a B.S. in Engineering Science from The College of New Jersey where she focused on Electrical Engineering and Business Management. Dawn earned her J.D. from the Villanova University School of Law, where she was awarded the Dorothy Day award for excellence in pro bono activities.

Tarik Patterson joins RatnerPrestia as a Scientific Advisor in the Valley Forge office. Tarik holds a degree in Mechanical Engineering from Temple University. He served his co-op rotations in the machine design services department of the Walt Disney Company "Ride & Show" Engineering. Tarik received his J.D. from Rutgers University - Camden School of Law.



Lauren Schmidt joins RatnerPrestia as an Associate in the Valley Forge office. Lauren received her B.S. degree in Biology from Loyola College in Maryland. She interned in the legal department of a pharmaceutical company, gaining experience in patent prosecution and contracts. She earned her J.D. from Villanova University School of Law, where she was vice president of the Intellectual Property Society. During law school, Lauren externed for Judge Irvin J. Snyder and the Late Judge Charles A. Weiner.

“RATNERPRESTIA ANNOUNCES COMPLETION OF OFFICE EXPANSION”
CONTINUED FROM FRONT PAGE

A major objective in planning the expansion was to fulfill the firm’s commitment to continued growth. In addition to a new wing dedicated to RatnerPrestia’s expanded litigation practice, the entire floor plan was redesigned and rebuilt to accommodate the firm’s increasingly prominent transactional and risk management practice areas.

Also featured in the redesign is a media room, which can accommodate the firm’s 100 employees and can be configured to function as a mock court room or set up for educational or social meetings. The media room also features the latest video conferencing technology to facilitate communications with overseas clients. The hub of the firm’s new floor plan is a conference center with fully equipped conference rooms named and thematically decorated to represent the firm’s international clientele in America, Europe and Asia.



Original art by several of the firm’s friends and clients are incorporated in the conference room decor, including bronze and marble sculptures by well known Valley Forge artist, Tony Trezza. Thanksgiving figurines, created by long time RatnerPrestia client, Byers’ Choice of Chalfont, PA., share the American Room with Trezza’s bronze eagle. A highlight of the Asian Room are four authentic Japanese gold leaf panels originally created for Longwood Gardens by artist Wendilee Heath O’Brien.

According to Paul Prestia, the firm’s co-founder and CEO, as an intellectual property law firm, RatnerPrestia is heavily involved in helping clients protect and realize value from their creativity. This is reflected in the firm’s tagline, “We specialize in the law of creativity.” In redesigning and rebuilding its Berwyn office, the firm took the opportunity to merge a decorating theme that reflected its commitment to creativity with its long standing tradition of modern, spacious and efficient offices.



RatnerPrestia’s operations continued without interruption despite the nine month project in which the firm’s entire floor space was demolished and rebuilt in three phases of construction, supervised by its Executive Director, Barbara Foley, working with prime contractor Vanessa Construction Company and the owner and operator of the Westlakes Office Park, Mack-Cali. The project launched the beginning of RatnerPrestia’s second ten year lease in Westlakes. John Adderly, Mack-Cali’s Vice President of Leasing, complimented everyone involved for completing the project on time and on budget and noted that Mack-Cali was extremely pleased by the company’s continued mutual commitment with RatnerPrestia, which it regards as one of its best tenants.





SPEAKER'S FORUM

The questioning of what subject matter is appropriate for patent protection and how to prosecute patent applications when this question is raised was the subject of a presentation by **Kenneth Nigon** at the American Intellectual Property



Law Association Annual meeting in Washington D.C. The increasing impact of this question, as discussed by Ken, has been greatly enhanced by new guidelines published by the USPTO last November and by the interest shown by the supreme court in first accepting and then declining to hear the issue as raised in the case of *Laboratory Corporation of America v. Metabolite*.

Kenneth also spoke at the 16th Annual Advanced Patent Prosecution Workshop in New York on Monday November 13, 2006. His presentation addressed specification drafting issues in view of *Philips v. AHW* and its progeny and focused on applications in the electronic and computer arts.



Christopher Lewis and **Joshua Cohen**, both Shareholders with RatnerPrestia, were invited to participate in a grand rounds conference for the Department of Orthopaedic Surgery at The Hospital of the University of Pennsylvania.

Joshua and Christopher presented, "The Nuts, Bolts, and Other Fixators of Patenting: Advancing Medicine while Promoting Profit" in the Agnew-Grice Conference Room.

In a seminar on Practical Patent Prosecution Training for New Lawyers, presented by the American Intellectual Property Law Association, **Jonathan Spadt** presented an introduction to claim drafting.



The seminar is directed to newer practitioners who wish to gain knowledge in strategies for more effective and valuable patent prosecution and claim coverage. Jonathan, along with RatnerPrestia Associate, **Glenn Massina**, also participated in the Claim Drafting Workshops.

“IN GENERAL TERMS, A MEDIATION SESSION IS A MEETING BETWEEN THE MEDIATOR AND A PARTY OR ALL THE PARTIES INVOLVED IN A DISPUTE FOR THE PURPOSE OF NEGOTIATING A SETTLEMENT OF THE DISPUTE.”

Harrie Samaras on "The Mediation Session" on Page 8.

INSIGHT...

INTO BUSINESS APPROACHES TO DISPUTE RESOLUTION



THE MEDIATION SESSION

People commonly use general terminology when referring to concepts that are often more complex than the general term reveals. The dispute resolution process known as mediation is an example of this. The mediation process or “a mediation” is comprised of various steps that typically include: identifying criteria for choosing a mediator; researching and evaluating potential mediators; pre-mediation discussions with the mediator about the dispute, pre-mediation fact finding and brainstorming with the client, preparing the pre-mediation submission, participating in negotiation sessions with the mediator and other disputants, and preparing and negotiating the settlement documents. Some of those steps (e.g., preparing the pre-mediation submission) may occur only once in a mediation, while other steps (e.g., participating in negotiation sessions with the mediator) may occur numerous times. Accordingly, in choosing mediation as a dispute resolution process, it is important that the steps of the process are well understood by both the client and counsel and that both are committed to each step in the process. This column focuses on the step of mediation that is most commonly associated with a mediation -- *the mediation session*.

What constitutes a mediation “session”? In general terms, a mediation session is a meeting between the mediator and a party or all the parties involved in a dispute for the purpose of negotiating a settlement of the dispute. The flexibility of mediation is often manifested in how mediation sessions are conducted. Mediation sessions can occur in person, over the phone and even by e-mail. The mediator may meet with both parties and their counsel (“joint caucus”) or in a separate session with a party and their counsel (“separate caucus”). In fact, during a mediation session a mediator may determine that a meeting of himself/herself together with principals, without their counsel, can more effectively foster a resolution of all or some of the issues. Likewise, different kinds of mediation sessions can be combined as required by the parties to settle the case. So, for example, initial single caucuses may be held with the mediator by phone, followed by an in-person session (joint and/or single caucuses), followed by phone sessions (joint and/or single caucuses) that continue the negotiations, possibly followed by another in-person session that finalizes the terms and conditions of the settlement.

How long are mediation sessions? Mediation sessions can be measured in terms of minutes (e.g., phone conversations, e-mails), hours (e.g., in-person sessions) or days (e.g., series of phone conversations, e-mails or in-person sessions). The flexibility of the mediation process permits the parties and/or the mediator to determine the length of the session depending upon the parties’ wants and needs.

Who determines the kind and number of sessions which are held during the mediation? The flexibility of the mediation process permits both the parties and the mediator to determine the kind and number of sessions. For example, the parties may believe that multiple in-person mediation sessions will help them settle their dispute or that an in-person mediation session followed by phone sessions better suits their schedules or the progress of the negotiations. Similarly during the course of the mediation, it is often the case that a mediator orchestrates the timing and nature of the mediation session. This may be, for example, by using joint and separate caucuses, meeting with the principals alone without counsel or conducting the session well into the evening to build a momentum for reaching a settlement.

What factors affect the progress made during a mediation session?

I. The parties involved in the dispute – What is their relationship or history with one another? Who are the parties’ in-house key negotiators at the session and what is their relationship with one another? Are there cultural differences between the parties? Are the parties participating in the mediation in good faith?

2. The counsel representing the parties – How knowledgeable are counsel with the mediation process? Are counsel contributing to the brainstorming of settlement options? Are they keeping their clients working on the settlement during “down-time” (e.g., when the mediator is caucusing with the other party, after an initial in-person session that does not settle the case and before a second in-person session). Are they part of the problem or the solution? Are litigation tactics seeping into the mediation? Are counsel promoting their own interests rather than those of their clients?

3. The nature/complexity of the dispute – Are the parties seeking a global settlement of more than one dispute? Does the case involve multiple parties and/or multiple issues? Is an insurance company involved?

4. The parties' willingness to invest in a mediation session(s) – Are the parties willing to afford as much of the mediator's time as it takes to resolve the dispute? Are the parties willing to set aside the time for negotiating a resolution to the dispute, including: traveling to the location of the mediation session; obtaining relevant information from other corporate personnel that may form a part of the settlement deal; and expending the hours necessary in the negotiations to build the momentum for a settlement?

5. The derivation of the mediation (e.g., court-ordered vs. private). How much time is the mediator willing to commit to the parties? How effective is the mediator for the particular dispute?

6. The key negotiators and decision makers – How knowledgeable and comfortable are the negotiators with the mediation process and with negotiations? How well prepared are the negotiators to negotiate a deal? What are the personal characteristics of the negotiators – emotional, problem solvers, patient, engaging?

7. The ability of the mediator and the parties to narrow the issues -- Either by phone or in pre-mediation submissions, have the parties clearly and candidly set forth all the issues involved in the dispute -- not just the legal claims being asserted by the parties? How quickly are the issues or obstacles apparent from the information provided by the parties during the session? How adept is the mediator at spotting the obstacles or setting a priority for dealing with certain issues that may moot addressing other issues? How willing are the parties during the negotiations to forego the dispute over certain issues?

8. Tenacity of the mediator: Did the mediator leave enough of his/her time to conduct a mediation session(s) that meets the needs of the parties? How patient is the mediator with the parties, the issues and the process? Is the mediator willing and able to maintain the momentum of the negotiations during a session and between sessions?

9. Preparedness of the parties for the mediation session - Are representatives with full settlement authority participating in the sessions? During the sessions, do the parties have access to others at the company who may need to provide them with either information or further authority (e.g., Board approval)? How much work did the parties invest in finding the answers to the questions that are typically part of a pre-mediation submission (e.g., their and their adversary's best and worst alternatives to a negotiated agreement, the costs of continuing in the dispute, the strengths and weaknesses of both parties' positions; the needs of the parties)?

10. Focus of the parties on settling the case - Are the parties committed to settling the case?

Can mediation be “successful” if the dispute does not settle after one session? Yes. The answer lies in remembering the distinction between “mediation” and a “mediation session.” Because mediation is often comprised of multiple sessions, the success of a mediation cannot be judged after, for example, just one in-person session. For every one mediation session that does not result in a settlement, there is often a subsequent session(s) that results in the resolution of a dispute.

You have choices and we're here to help you make the best ones.

Harrie Samaras
RatnerPrestia's Alternative Dispute Resolution Group Leader

RatnerPrestia specializes in patent, trademark, and copyright matters and realizes an obligation to keep its clients, and others, informed in those areas. The articles in this newsletter are intended to provide only a brief, general overview of each subject and are not necessarily the opinion of this firm. Nothing herein should be construed as legal advice. RatnerPrestia recommends that readers seek specific information and/or legal advice on particular matters of concern.

Insight is published by RatnerPrestia. The firm welcomes your articles, ideas for articles, comments, and suggestions.

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